

Did you know that, except for financing of facilities, equipment or Pension Obligation Bonds (POBs), interest however represented is unallowable:

2CFR Part 225 (OMB Circular A-87), Appendix B, item 23 specifies that:

- a. interest on borrowed capital is unallowable, and
- b. financing cost (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction or fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable...Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable cost of equipment is allowable...

It also specifies that interest on fully depreciated assets is unallowable.

Additionally, on January 31, 1994, OMB issued a policy statement that interest on Pension Obligation Bonds (POBs) issued to finance the Unfunded Actuarial Liability (UAL) is a surrogate for the actuarially determined interest on the pension liability and, therefore is allowable under A-87, provided that "Debt financing of the unfunded actuarial liability (UAL) is not more costly to the Federal Government than the regular pension financing over the remaining unamortized life of the UAL, considering bond principal, interest, issuance costs and any other relevant factors, as determined at the time of the financing."

In summary, interest on borrowed capital is unallowable except for:

Buildings that are not fully depreciated

Land

Equipment

Pension

Obligation Bonds.